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MEMORANDUM FOR: Chief, Procurement Division/OL

ATTENTION : Chief, Industrial Contract Section

SUBJECT :

[REDACTED]

1. During an audit of a price redetermination contract, we again reviewed the subject contractor's financial condition, which remains weak. Borrowing has increased to the extent that at 30 April 1964, the outstanding bank loan amounted [REDACTED]. This note is renegotiated every month on the basis of the contractor's requirements and is secured by its current assets. It is our opinion that the current assets are overstated, because of the following:

a. As at 30 April 1964 Unbilled Accounts Receivable of [REDACTED]

[REDACTED] We consider the collectibility of this claim to be very much in doubt, especially on a current basis.

These accounts are also overstated because the contractor debits them on the basis of estimated percentage of completion of contracts. The tendency has been to overestimate the percentage of completion.

b. The inventory valued [REDACTED] as at 30 April 1964, includes a substantial amount of development costs which cannot be properly considered current assets and which are of questionable value. The inventory also contains the cost of production of certain products, for which to date, no established market exists. It is difficult for these reasons to evaluate accurately the inventory.

2. Because of the overstatement of the current assets we believe it questionable as to how long the bank may continue to advance funds. The outside investors are requesting an audit by a larger accounting firm. If this audit takes place, the new accounting firm might be more reluctant to certify the contractor's financial statements.

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SUBJECT: [REDACTED]

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3. The contractor's profit for the year will probably be about [REDACTED] On sales of [REDACTED] this constitutes a return of only 3%. Sales for the year have increased about 40%. Despite the increase in sales, overhead and general and administrative expense allocation rates continue to rise, and profit has decreased.

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[REDACTED]

5. Unless additional capital is invested in this company its financial position will, in our opinion, continue to be precarious.

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[REDACTED]

Chief
Industrial Contract Audit Division

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